



Arizona Utility
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ORIGINAL



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BEFORE THE ARIZONA CORPORATION COMMISSION

Marc Spitzer
Chairman
William A. Mundell
Commissioner
Mike Gleason
Commissioner
Jeff Hatch-Miller
Commissioner
Kristin Mayes
Commissioner

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AZ CORP COMMISSION
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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR
A HEARING TO DETERMINE THE FAIR
VALUE OF THE UTILITY PROPERTY FOR
RATEMAKING PURPOSES, TO FIX A JUST
AND REASONABLE RATE OF RETURN
THEREON, TO APPROVE RATE SCHEDULES
DESIGNED TO DEVELOP SUCH RETURN,
AND FOR APPROVAL OF PURCHASED
POWER CONTRACT.

DOCKET NO.
E-01345A-03-0437

NOTICE OF FILING SUMMARY OF TESTIMONY

Pursuant to the instructions from the Chief Administrative Law Judge at the procedural conference on October 27, 2004, the ARIZONA UTILITY INVESTORS ASSOCIATION (AUIA) hereby files its summary of the settlement direct testimony of Walter W. Meek.

Respectfully submitted, this 4th day of November, 2004.

Walter W. Meek, President

Summary of Settlement Direct Testimony of Walter W. Meek

Mr. Meek is a signatory of the settlement agreement on behalf of the Arizona Utility Investors Association (AUIA). He offers three main reasons why AUIA supports the agreement:

First, the settlement resolves issues that are of grave concern to the financial community. If these issues aren't resolved equitably, the financial community may conclude that APS faces an unacceptable level of regulatory and financial risk going forward.

Second, the agreement is fair to ratepayers, shareholders and all of the 22 stakeholders who have signed it. Five months of give and take negotiating has produced an agreement that fairly balances the interests of all parties. However, the agreement is very intricate and could come apart if provisions that are important to various parties are altered significantly.

Third, the agreement avoids extensive litigation to complete the rate case and cancels pending litigation in the courts relating to the Commission's Track A decision and the 1999 settlement agreement. Given the number of parties and more than 40 witnesses, this case, if litigated, might not end until mid-2005, a circumstance that would trigger severe reactions from the financial community.

An overriding benefit of the settlement is that, compared with initial litigation positions, it portends a more rational and stable regulatory environment and a new climate of certainty for APS.

Mr. Meek discusses four key issues that are resolved in the agreement:

1. *Revenue Increase and Rate of Return (ROE)*. The agreement provides an actual increase of \$66.5 million or 3.7% over test year revenues and an ROE of 10.25%. The ROE figure is at the low end of recent authorizations in other jurisdictions. Financial analysts have described the revenue increase as modest at best, but it appears to be sufficient to continue the parent company's dividend policy and to maintain APS' credit rating at its current level. The financial community would react very negatively if the company's earning potential or its credit metrics were degraded further.

2. *Rate-basing the PWEC Units*. The agreement provides for rate-basing the 1,790 MW of PWEC generation at their December 31, 2004 book value, less a discount of \$148 million to recover the remaining value of the Track B contract between PWEC and APS. This provision is inextricably linked to the revenue requirement, the 10-year self-build moratorium and the requirement for APS to purchase power in the competitive market in 2005. Every securities analyst and rating agency that has commented on the agreement has cited the PWEC rate-basing as one of the two most important issues covered by the agreement.

3. *The Power Supply Adjustor (PSA)*. The agreement authorizes APS to implement a PSA that covers fuel and purchased power expenses and also captures the proceeds from market trading. Because APS has increasing exposure to natural gas as a generating fuel and because the price of gas is volatile, its cash flows, earning potential and credit metrics are at risk without a PSA. Financial analysts and rating agencies regard the PSA as one of the most important provisions of the agreement.

4. *Clarification of APS' Obligation to Serve.* Section X of the agreement affirms that APS has the ongoing obligation to plan for and serve all electric customers in its service territory. The section also clarifies that APS can meet its obligation by self-building or buying new generation assets, subject to certain requirements and restrictions that are found mainly in Section IX. These provisions give the company and the Commission the flexibility to reach the appropriate resource decisions. They are the result of hard-fought negotiations among several parties.

Mr. Meek strongly recommends that the Commission approve the settlement agreement with its key provisions intact. The financial community collectively has been holding its breath, waiting for an outcome to this case. Approval of the agreement will serve the interests of virtually all of the stakeholders in this proceeding. It will also allow Wall Street to exhale.

CERTIFICATE OF SERVICE

An original and 13 copies of the referenced summary
filed this 4th day of November, 2004, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Copies of the referenced summary
hand delivered this 4th day of November, 2004, to:

Mark Spitzer, Chairman
Philip Dion, Executive Assistant
William A. Mundell, Commissioner
Adam Stafford, Executive Assistant
Jeff Hatch-Miller, Commissioner
Dean Miller, Executive Assistant
Mike Gleason, Commissioner
Jodi Jerich, Executive Assistant
Kristin Mayes, Commissioner
Garry D. Hays, Executive Assistant
Christopher Kempley, Esq., Legal Division
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A copy of the referenced summary was
mailed this 4th day of November, 2004, to:

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